



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 9/24/2002

GAIN Report #E22091

European Union

Livestock and Products

Annual

2002

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Report Highlights:

The years 2002 and 2003 are likely to be years of stabilization for the EU beef sector. After the BSE crisis in 2001, the EU beef sector seems to have regained balance albeit at lower production levels. As far as the EU pigmeat sector is concerned, the market has also stabilized after the FMD outbreak.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Brussels USEU [BE2], E2

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Introduction

This report reflects activities and issues for the entire EU-15. Actively contributing to this report:

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Executive Summary

In 2002, EU beef producers seem to have overcome the 2001 BSE crisis and are likely to get back to a balanced market situation in 2003. Production is growing in line with improved consumption rates. Exports resumed after third countries lifted most of their BSE-related restrictions on EU beef. Sales out of intervention stocks started in June 2002 and are likely to continue to accelerate in 2003. EU beef producers seem to accept that balance in the EU beef market will be reached if lower production levels can be maintained, which will be the case in 2003.

The EU pig situation emphasizes different and opposite trends among major EU producers, with some producers expanding production while other cut it drastically. The year 2002 is proving to be more difficult than 2001, now that EU consumers have returned to beef. Oversupplies are looming, which pushes prices down. Fortunately, most third countries' bans on EU pigmeat due to the FMD outbreak have been lifted and exports were sustained. This year and next year will see some of the largest EU producers (Denmark, France, Germany, Spain) expand their production in spite of low prices. Other smaller producers (UK, Netherlands, Belgium) will cut production because of environmental constraints or consequences of the FMD outbreak.

This year on the policy front, EU authorities seemed to have BSE under control. Its impact on consumption is fading away and most market support measures have been discontinued. The main consequence of BSE lies now in the numerous regulatory initiatives taken to avoid a replication of major animal disease incidents, particularly in the area of feed. The question of quality and control of feed was also tackled during the Foot and Mouth Disease (FMD) crisis and the recent Medroxyprogesteron Acetate (MPA) problem.

After budgetary stability in 2002, EU budget forecasts for 2003 show an increase for the meat sector because of higher export refund allocations needed to make EU meat competitive. The beef sector budget also grows in line with increasing premia under Agenda 2000.

U.S. red meat exports to the EU remain subjected to non-hormone treated conditions, listing requirements and mandatory residue monitoring.

Commission proposals for the Agenda 2000 mid-term review include bold proposals decoupling subsidies from beef production. Proposed legislation mainly covers broad initiatives initiated in 2001 following a long EU legislative process. Also provided is a summary of feed legislation initiatives.

CATTLE

PSD Table						
Country	European Union					
Commodity	Animal Numbers, Cattle				(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Total Cattle Beg. Stks	81337	81337	80391	80448	0	79800
Dairy Cows Beg. Stocks	21552	21552	21450	20600	0	20000
Beef Cows Beg. Stocks	12112	12112	12200	12884	0	12839
Production (Calf Crop)	27572	27572	27714	27500	0	27000
Extra EC Imports	440	440	465	500	0	485
TOTAL SUPPLY	109349	109349	108570	108448	0	107285
Extra EC Exports	124	124	294	230	0	255
Cow Slaughter	6823	6823	6934	7100	0	6683
Calf Slaughter	6941	6941	6985	5678	0	5570
Total Slaughter	25230	25230	25493	26100	0	26100
Loss	3604	3547	1933	2318	0	2130
Ending Inventories	80391	80448	80850	79800	0	78800
TOTAL DISTRIBUTION	109349	109349	108570	108448	0	107285

After massive culling schemes carried out in 2001 to counter an FMD outbreak and to sustain the market following the BSE crisis, it was expected that EU producers would rebuild their stocks in order to meet resilient demand in the domestic market. However, stocks went down in 2002 as the FMD crisis resulted in substantially lower than expected numbers in the UK. Also, French census data was revised downwards, following the implementation of a new counting method and some French producers decided to take advantage of increased extensification premia and diminished their herds accordingly. Furthermore, the traditional decline of the dairy herd also contributed to pushing herd numbers down. On a more positive note, the resumption of beef consumption resulted in higher slaughter numbers, which depleted herds. The decreasing trend in stocks and production is continuing into 2003, as market perspectives for beef remain shaky and export opportunities scarce. By contrast, some producers in Denmark rebuilt their stocks in 2002 in order to take advantage of higher premia under Agenda 2000 provisions, and Spain is still expanding towards pre-BSE and FMD levels. Some producers in Ireland are tempted to enlarge their herd in anticipation of historical production rates to be determined if the mid-term review (see trade policy) opts for decoupled payments.

Dairy cow numbers continued to decrease as dairy production is still limited by dairy quota and the yield per cow keeps improving. Beef cows, on the other hand, increased in 2002, following the retention of animals during the BSE crisis, while farmers wait for better prices. France also sees a partial switch of its dairy herd from Holstein to mixed breeds as dairy breed prices suffer from a "BSE-infected" image. Their numbers are expected to stabilize in 2003, after the backlog is absorbed.

The calf crop in 2002 is more or less stable as prospects and prices remain uncertain. Production is partly sustained by the fact that retained cows birth one more calf than foreseen before getting slaughtered. Production is forecast to decrease slightly in 2003, as the EU beef market stabilizes at lower levels. Producers remain anxious about the final subsidization patterns decided with the mid-term review of Agenda 2000. Their production decisions will be linked to a potential decoupling of payments, which could lead them to cut calf crop. On the other hand, decoupled payments will be based on yet undetermined historical base years, which could make the same producers maintain production a little longer.

Imports increased in 2002 and in 2003 following the conclusion of double profit agreements with Central and Eastern European Countries (CEECs: Poland, Hungary, the Czech Republic, Bulgaria, Romania, Slovenia, Slovakia, Estonia, Latvia and Lithuania), particularly into Germany from Poland, the Czech Republic and Hungary.

Exports increased in 2002 and are likely to continue to do so in 2003 as more third countries lift BSE- or FMD-related import restrictions. French and German exporters are displacing traditional Irish exports to Lebanon which are blocked because of BSE concerns. EU cattle exports are also buoyant to Russia and Eastern Europe. The conclusion of double profit agreements, which extends preferential trade conditions to cattle and beef, among other commodities, is also likely to boost cattle exports slightly.

Animals retained on farm because of FMD-related movement restrictions and animals retained due to low prices following the BSE crisis were brought to the slaughterhouse in 2002, which resulted in higher slaughter. Higher slaughter numbers are demand-driven as beef consumption levels improve throughout the EU. Average slaughterweights increased, in line with older animals being slaughtered after several months of retention. Slaughter numbers are expected to be stable in 2003, as the EU beef market is in balance again albeit at lower levels.

Losses gradually decrease as BSE schemes and FMD culling programs are discontinued.

Cattle numbers - Ending stocks 2001 (source: European Commission) and forecasts for Beginning Stocks 2003 (source: EU FAS offices) (000head)

	December 2001	January 2003
Total EU	80,306	79,800
France	20,281	19,950
Germany	14,119	13,900
UK	10,161	9,900
Italy	7,395	7,180

Ireland	6,518	6,497
Spain	6,305	6,450
Netherlands	3,842	3,700

BEEF

PSD Table						
Country	European Union					
Commodity	Meat, Beef and Veal				(1000 MT CWE)(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	25230	25230	25493	26100	0	26100
Beginning Stocks	339	20	686	302	0	250
Production	6896	6896	6932	7250	0	7150
Extra EC Imports	300	300	337	445	0	530
TOTAL SUPPLY	7535	7216	7955	7997	0	7930
Extra EC Exports	400	400	539	480	0	530
TOTAL Dom. Consumption	6449	6514	6833	7267	0	7300
Ending Stocks	686	302	583	250	0	100
TOTAL DISTRIBUTION	7535	7216	7955	7997	0	7930

Note: Beginning and ending stocks as of 2002 only reflect official EU intervention stocks as well as member state-managed Special Purchase Scheme stocks. All other stored meat is included in domestic consumption.

After a steep drop in consumption in 2001 due to the BSE crisis, the EU beef sector bounced back in 2002. Production goes up, in line with increased slaughter and temporarily heavier slaughterweights due to older animals retained on farm in 2001 in the hope of better prices. EU beef production is expected to stabilize in 2003, as consumption returns to pre-BSE levels. Slaughterweights will go down again in 2003 as younger animals are slaughtered in order to avoid BSE testing. The calf crop shrank in view of the uncertainty of the beef market. Releases of intervention stocks also put some pressure on production levels. The largest cuts are likely to take place in the UK, which is in the middle of a systemic restructuring of its beef sector. Ireland's export prospects remain especially sluggish.

Intervention stocks are likely to go down slightly in 2002. Beginning stocks consist of approximately 220,000mt of intervention stocks and 70,000mt of Special Purchase Scheme stocks, managed directly by the member states. The largest intervention stocks are found in Spain (60,000mt), France (59,000mt), Germany (51,000mt) and Italy

(36,000mt). Sales out of intervention were initiated in June 2002 and are expected to amount to 35,000mt by the end of the year. As of September 15, about 9,000mt had been adjudicated either for processing or for export. Sales out of SPS stocks have been approved for domestic food aid in France or food aid exports to North Korea from Germany. In 2003, it is foreseen that about 100,000mt of intervention beef will be sold as well as 50,000mt of SPS beef.

After sluggish import levels in 2001 due to low EU beef consumption, imports increased in 2002, particularly in Germany, the UK and the Netherlands. The conclusion of double profit agreements impacted imports of Eastern European beef into Germany. The United Kingdom needs to import beef to satisfy domestic demand. In some member states, Latin American beef replaced traditional imports from African countries with preferential import quotas (Namibia, Botswana, Zimbabwe). Furthermore, Brazil, thanks to competitive prices, due partly to the weak real, managed to export beef to the EU outside import quotas. Imports are likely to keep increasing in 2003, as more double profit agreements are concluded, domestic consumption and exports are sustained and EU production stabilizes.

Exports of EU beef are moving in 2002, after most third countries have lifted their BSE or FMD-related bans. However, Russia remains closed to some EU areas around FMD cases. Egypt imposed special requirements on beef which make it an unprofitable destination, particularly for Irish product. Saudi Arabia and Gulf states also continue to impose restrictions. Export levels increased mostly in Spain, Ireland and the UK. Spain and Ireland exported beef to Russia. In the case of Ireland, some of the product was originally destined to Egypt. UK exports are slowly resuming after the loosening of the DBES (Date Base Export Scheme) in June 2002. Exports are forecast to increase slightly in 2003 with increased trade to Russia and an anticipated return of exports to Egypt from Ireland. Some Central and Eastern European Countries could also turn into profitable destinations after the conclusion of double profit agreements.

Beef consumption rebounded in 2002 to finally reach pre-BSE levels in 2003. The devastating effects of the BSE crisis are expected to have almost completely disappeared by the end of 2002. Consumption is expected to return to its traditional declining trend. The end of meat destruction schemes decided in 2002 to support the market after the BSE crisis also inflated domestic use. Meat stored commercially in 2002 in hopes of better prices and improved exports is foreseen to be released by next year. This explains the lower growth rate in consumption in 2003.

EU beef production by member state (000mt)

	2002	2003
Total EU	7,250	7,150
France	1,575	1,560
Germany	1,410	1,380
Italy	1,140	1,140
Spain	700	712
UK	635	565

Ireland	540	503
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Source: EU FAS offices

EU domestic consumption by member state (000mt)

	2002	2003
Total EU	7,267	7,300
France	1,703	1,603
Italy	1,390	1,390
UK	1,045	1,050
Germany	994	1,055
Spain	669	677

Source: EU FAS offices

EU beef exports by member state (000mt cwe)

	2002	2003
Total EU	480	530
Germany	177	170
Ireland	120	150
Netherlands	50	60
Spain	40	50

Source: EU FAS offices

SWINE

PSD Table						
Country	European Union					
Commodity	Animal Numbers, Swine				(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
TOTAL Beginning Stocks	123261	123261	122938	121315	0	121026
Sow Beginning Stocks	11778	11778	11866	11694	0	11680
Production (Pig Crop)	213693	213693	214699	214000	0	213750
Extra EC Imports	50	50	62	36	0	40
TOTAL SUPPLY	337004	337004	337699	335351	0	334816
Extra EC Exports	68	68	73	108	0	120
Sow Slaughter	3250	3250	3376	4411	0	4400
Total Slaughter	201498	201498	205068	204210	0	204100
Loss	12500	14123	10150	10007	0	9596
Ending Inventories	122938	121315	122408	121026	0	121000
TOTAL DISTRIBUTION	337004	337004	337699	335351	0	334816

EU beginning swine stocks were slightly down in 2002 compared to 2001. However, after the pigmeat consumption boost in 2001 due to the BSE crisis, the bubble burst and beef consumption resumed. Pig prices went down and oversupplies loomed in some member states. This general trend, however, hides disparate options among member states. The overall declining EU trend is entirely due to serious production cuts in the UK, the Netherlands and Belgium. In the UK, the lack of productive livestock due to the massive FMD outbreak along with the recent occurrence of pig wasting disease could cut the pig herd by one third over the next three years. Both the Netherlands and Belgium have instituted official production cut programs in order to meet environmental constraints. As with cattle, French census data on pigs has been revised downwards as a result of the implementation of a new counting method. On the other hand, in a low price situation, Denmark traditionally expands production to maximize benefits. Spain is still increasing production, as 60 pct of the potential pig production is not restricted by environmental constraints. Other member

states stabilized production and inventories remain unchanged in 2003.

Imports of live pigs decreased in 2002 as traditional imports of Hungarian pigs into Spain did not take place this year. Greece, the biggest EU importer of live pigs, is expected to maintain stable import levels. Imports are forecast to stabilize in 2003, as inventories remain unchanged and slaughters decrease.

Exports increased in 2002, due to the end of export restrictions due to the FMD outbreak. Germany, in particular, increased exports to Romania. Exports are likely to continue growing slightly in 2003, due in part to the consequences of double zero agreements concluded with the ten CEECs.

Slaughters increased in 2002 as FMD-related movement restrictions were lifted. Furthermore, export prospects improved for pigmeat for some member states and part of the herd needed to be liquidated for other member states. Slaughters stabilize downward in 2003, due mainly to technical improvements in major producing countries, particularly France.

Losses decrease in 2002 and 2003 as FMD and CSF culling schemes are gradually discontinued.

Hog numbers - Ending stocks 2001 (source: European Commission) and forecasts for Beginning Stocks 2003 (source: EU FAS offices) (000head)

	Ending stocks 2001	Beginning stocks 2003
Total EU	121,881	121,026
Germany	25,814	26,518
Spain	23,472	24,000
France	15,253	15,297
Netherlands	11,514	10,500
Denmark	12,975	12,735

PIGMEAT

PSD Table						
Country	European Union					
Commodity	Pigmeat				(1000 MT CWE)(1000 HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	201498	201498	205068	204210	0	204100
Beginning Stocks	600	0	610	0	0	0
Production	17419	17419	17649	17800	0	17820
Extra EC Imports	60	60	65	60	0	60
TOTAL SUPPLY	18079	17479	18324	17860	0	17880
Extra EC Exports	1200	1200	1300	1300	0	1350
TOTAL Dom. Consumption	16269	16279	16324	16560	0	16530
Ending Stocks	610	0	700	0	0	0
TOTAL DISTRIBUTION	18079	17479	18324	17860	0	17880

As of 2002, beginning and ending stocks only reflect official intervention stocks. Private storage aid is the only intervention program operating in the EU for pigmeat. It was last used from September 1998 to September 1999 when it took in 400,000mt of pigmeat. It has not been triggered in 2002 and is not expected to be in 2003. This explains empty stocks on the PSD for 2002 and 2003.

In line with growing exports and sustained consumption, production of pigmeat increased in 2002, to a larger extent than slaughter of pigs, as slaughterweights are up. This is due to the fact that animals are held longer in some member states, such as in the UK, because of movement restrictions due to FMD. Increased slaughterweights also respond to specific requirements from processors in France and other EU countries. The only exception is Italy where slaughterweights decreased because of increasing consumption. As for live pigs, trends vary considerably from member state to member state as producers choose to expand in low priced periods while others cut production. Some

producers are also forced to limit production because of environmental constraints. Production levels for 2003 are expected to be fairly similar to 2002: large producers (France, Denmark, Germany) are forecast to maintain production or increase marginally while smaller producers, such as the UK and the Netherlands, experience large cuts.

Imports are stable in 2002 and 2003, as EU processors find enough low priced raw material in the domestic market. However, double zero agreements kept CEECs imports competitive and prevented them from decreasing significantly.

After the halt imposed on EU exports of pigmeat by third countries because of the FMD outbreak in 2001, exports started to revive in 2002. Germany increased pigmeat exports to Russia, Hungary and Romania. France, which is still not allowed to export pigmeat to Japan and South Korea, exported more to Africa, Singapore and the Philippines. Italy shipped more processed products to Far Eastern countries. EU pigmeat is not eligible for export refunds, nor is it likely to be in the months to come. However, the negative effects of the strong euro are annulled by low prices prevailing throughout the EU. Generally, double zero agreements helped boost exports to Eastern Europe. Denmark does not expect to be severely affected by the Japanese safeguard measure triggered in August 2002. The share of exported products which will not be shipped to Japan because of safeguard (assessed at 10 pct) will either be stored in anticipation of the lifting of the safeguard measure in 2003 or redirected to Russia. Exports are expected to stabilize in 2003, as EU pigmeat faces increasing competition in its traditional market (Russia), mainly from Brazil.

Human consumption of pigmeat is returning to traditional slow growth levels, after the boost experienced in 2001 due to the BSE crisis. Higher domestic consumption in 2002 reflected larger stocks of cured products (Serrano ham, Parma Ham) or frozen products (Danish pigmeat for Japan) in the hope of better prices. EU domestic consumption for 2003 is expected to be slightly lower in 2003. Human consumption is sustained but storage decreases as better prices and resumed exports to Japan are anticipated.

EU pigmeat production by member state (000mt)

	2002	2003
Total EU	17,800	17,820
Germany	4,100	4,115
Spain	3,309	3,314
France	2,375	2,420
Denmark	1,740	1,775
Netherlands	1,340	1,300

Source: EU FAS offices

EU pigmeat consumption by member state (000mt)

	2002	2003
Total EU	16,560	16,530
Germany	4,330	4,355

Spain	2,814	2,824
France	2,240	2,244
Italy	2,200	2,200
UK	1,397	1,372

Source: EU FAS offices

EU pigmeat exports by member state (000mt cwe)

	2002	2003
Total EU	1,300	1,350
Denmark	520	545
Germany	150	150
France	120	150
Netherlands	75	75

Source: EU FAS offices

POLICY

ANIMAL DISEASES

BSE

As of June 2002, BSE cases throughout the EU amounted to 184,021, of which 181,173 were in the UK. The incidence peaked in 2001 as testing was expanded. The number of cases then started decreasing in 2002, except in Spain and Ireland. Of all EU member states, Sweden is the only one with no recorded cases of BSE. Until 2001, Switzerland was the only country outside the EU with BSE, but cases were detected in 2001/2002 in Japan, Poland, Slovakia, Slovenia, and the Czech Republic.

Most cases of BSE in the EU are found in at risk animals (fallen stock). About one in every thousand animals in this category test positive for BSE, as opposed to one per 30,000 in the tests on healthy cattle.

The last market support measure set up in the aftermath of the 2000 BSE crisis, the Special Purchase Scheme, was terminated in March 2002. Intervention stocks amounted to 252,000mt at the end of 2001, when the last quantities were bought in. Small sales out of intervention stocks have been initiated in the spring of 2002, and should continue into 2003. The Commission hopes to sell 58,000mt out of intervention in 2002 and 170,000mt in 2003, which should empty stocks. As of August 15, 6,369mt of beef had already been bought out of intervention in three separate tenders. As foreseen in Agenda 2000, as of July 1, 2002, regular intervention was suppressed and replaced by private storage aid, which should reduce if not eliminate meat bought into intervention.

In July 2002, the European Commission took France to the European Court of Justice for the second time over its continued ban on British beef imports because of BSE. This follows the first Court ruling against France last December. However, in September 2002, the French Food Safety Agency (AFSSA) proposed the lifting of the embargo on British beef, arguing that food safety measures in the UK are similar to those taken in France. It is expected that the EU legal procedure will be discontinued as soon as France opens its borders to British beef.

In July 2002, the EU Standing Committee on the Food Chain also eased several aspects of the UK Date Based Export Scheme (DBES) under which UK beef is exported. The changes include an extension of the eligible meat and a lifting

of the provision obliging slaughterhouses and cutting plants to dedicate their production lines to exports. This could boost exports, particularly to other member states, resulting in potential higher production forecasts for UK beef.

The impact of the two BSE crises is now felt in the legislative arena. Please see chapters below on TSEs, SRMs, and MBM for updates as well as a new part on feed, as intense regulatory efforts focus now on these areas.

Specified Risk Materials (SRMs)

Commission Regulation 270/2002 of February 14, 2002 extended the list of SRMs to include the whole mesentery of bovine animals. No other animal parts have been added to the list of SRMs in 2002. However, Commission Regulation 1326/2001 of June 29, 2001 added product categories subject to restrictions on import into the Community: beside fresh meat, imports of petfood, gelatin and rendered fats have to be accompanied by a declaration stating that they are SRM-free.

SRMs are defined as:

- the skull, including the brain and eyes, the tonsils, the vertebral column excluding the vertebrae of the tail and the transverse processes of the lumbar vertebrae, but including dorsal root ganglia and spinal cord of bovine animals aged over 12 months, and the intestines from the duodenum to the rectum and the mesentery of bovine animals of all ages;
- the skull including the brain and eyes, the tonsils and the spinal cord of ovine and caprine animals aged over 12 months or which have a permanent incisor erupted through the gum, and the spleen of ovine and caprine animals of all ages.
- additionally, for the United Kingdom, Portugal, and Northern Ireland, the entire head excluding the tongue, including the brain, eyes, trigeminal ganglia and tonsils; the thymus, the spleen and the spinal cord of bovine animals aged over 6 months will be considered as SRMs as well.

Meat and Bone Meal (MBM)

Council Decision 2000/766 of December 4, 2000 banned the use, import and export of processed animal proteins in all farm animal feed for six months beginning January 1, 2001. Since the MBM ban was intended to prevent potential cross contamination, it could be lifted for pigs and poultry in 2003, once stricter feed rules on ingredients and processing methods are in place. In the meantime, the Commission's concern about the way MBM is transported, stored and destroyed is growing. The EU produces 2.5 million tons of MBM a year, representing between 2 and 4 pct of compound feed. Some member states have had to store MBM given their insufficient incineration capacities.

Transmissible Spongiform Encephalopathies (TSEs)

In order to establish their risk status, Commission recommendation 98/477 invited third countries and member states to submit a complete dossier on their epidemiological status with respect to BSE. On the basis of the U.S. dossier, the Scientific Steering Committee (SSC) concluded in August 2000 that it is still unlikely, but cannot be excluded that BSE is present in the United States. This put the U.S. in category II of GBR (Geographical BSE Risk). Therefore U.S. exporters are required to remove SRMs. In May 2000, the EU adopted Regulation 999/2001 which is eventually intended to supersede all existing TSE legislation. Among other things, it establishes criteria for classifying the TSE status of member states and third countries. The 5 classification categories are based on OIE (Office International des Epizooties) criteria. The first GBR classification is one of the parameters used to determine the TSE classification. Opinions on the TSE GBR classifications of less than ten third countries have been released so far. The GBR

classification for the United States is expected to be published this fall. In the meantime countries are required to follow regulations laid out in Reg 1326/2001 for transitional TSE measures.

In July 2002, the Standing Committee on Animal Health and the Food Chain approved the lifting of restrictions on the trade of embryos and ova. This decision followed the Scientific Steering Committee's opinion on the safety of bovine embryos.

Foot and Mouth Disease (FMD)

Ireland, France and the Netherlands officially regained their OIE disease-free status in September 2001. No outbreak of FMD has occurred in the UK since September 30, 2001. Therefore, the UK was declared FMD-free by the OIE in January 2002.

Illegal imports of contaminated meat in connection with illegal swill feeding appear to be, according to the Commission, the most likely origin of the outbreak of FMD. The EU has decided to ban swill pig feeding as of November 2002 and to eventually extend the feeding ban to all catering waste. Furthermore, the Commission wishes to further reduce the level of long distance animal transport in order to minimize the risks of cross contamination.

Classical Swine Fever (CSF)

In 2002, outbreaks of CSF have occurred in certain areas of Spain, France, Luxembourg and Germany. Areas where cases were detected in these four member states are banned from exporting live pigs, porcine semen, ova and embryos until October 2002.

Medroxyprogesteron Acetate (MPA)

In May 2002, abnormalities in the reproductive behavior of pigs were detected at a Dutch breeding farm. In June, the Dutch Ministry of Agriculture stated that traces of MPA, a hormone replacement drug, had been found in a number of sows. This MPA was traced back to the fraudulent manufacture of feed and soft drinks using glucose syrup from pharmaceutical waste. The contaminated syrup was made in Belgium and exported to at least 11 countries in feed. EU authorities mandated that all member states trace, recall and destroy all potentially contaminated feed. All establishments that received potentially contaminated feed are to be put under surveillance and must increase testing to ensure that products placed on the market do not constitute a public health risk. Farms are allowed to begin exports seven days after the last tainted feed has been detected and destroyed. Dutch producers, however, are faced with a lot of reluctance from their usual customers inside and outside the EU. Although the effects of the MPA crisis are likely to wane quickly, the effects on EU trade levels of pigmeat and on prices are uncertain.

Welfare

In October and November 2001, the Commission published two directives (2001/88 and 2001/93) laying down minimum standards for the protection of pigs. From January 2003 for new farms and January 2013 for existing holdings, minimum surface requirements for different categories of pigs have been set up. The directives also establish a prohibition of the construction or conversion of installations in which sows and gilts are tethered. The castration of male pigs may be carried out only under anaesthetic by a veterinarian. Routing tail docking and tooth clipping are forbidden.

Piglets must not be weaned from the sow at less than three weeks of age.

In September 2002, the EU Commission is expected to tighten the rules on animal welfare during transportation, limiting durations and increasing requirements for staging posts.

BUDGET AND TRADE

EU Budget

The EU 2003 draft preliminary budget foresees 8,369 million euro for the beef sector, versus 8,095 million euro in 2002. In spite of the actual budget increase, the beef sector share of the EU agricultural budget remains unchanged at 17 pct. Larger budgetary allocations are due to a forecast growth in export volumes which have been stagnating for the past two years, resulting in larger restitution expenditures. The last tranche of Agenda 2000 increases on premia also contributes to the financial increase. However, intervention costs are forecast to shrink as quantities are sold out of intervention and no beef is likely to be bought in, as price levels improve.

The pigmeat heading grows to 83 million euro in the 2003 draft preliminary budget, versus 70 million euro in 2002. The increase is due to funding commitments after the Classical Swine Fever outbreak in Spain and also to larger subsidized quantities of sausages and processed products foreseen in 2003.

Export Refunds

For the 2001/02 GATT year, EU subsidized exports for beef are expected to cover about 59 pct of the allowed quantities, or 485,288mt out of the 821,700mt allowed ceiling. Export refunds have not been amended all year, as the Commission estimated that sluggish exports were not due to EU high prices but to animal health status or weak demand levels. Export restitutions have actually decreased given the strengthening of the euro. In its 2003 preliminary draft budget, the Commission foresees to export larger quantities in 2003, albeit at lower restitution levels. Furthermore, restitutions on exports to Central and Eastern European countries are likely to be suppressed as double profit agreements are implemented.

For the 2001/02 GATT year, EU subsidized exports of pigmeat are expected to cover about 17 pct of the allowed quantities, or 74,611mt out of the 444,000mt allowed ceiling. Export refunds for pigmeat were terminated in July 2000. Only processed products remained eligible. Export refunds on these processed products were reduced several times in 2001 and 2002 and increased slightly in July 2002, as WTO ceilings and budgetary projections allowed additional subsidized volumes. The 2003 draft preliminary budget foresees larger quantities of processed products to be exported with subsidies at similar levels.

Double Profit Agreements

In 2000, the European Union concluded double zero agreements with ten Central and Eastern European countries (Poland, Slovenia, Slovakia, Bulgaria, Romania, the Czech Republic, Hungary, Latvia, Lithuania, Estonia), which have applied for EU membership. Under these arrangements, about 75 pct of EU agricultural imports from these countries were able to enter the EU at zero duty while EU export possibilities to these countries at zero duty (and without export refunds) doubled. In January 2002, the European Commission started a new round of negotiations with a view to

finalizing the liberalization of agricultural trade started with the double zero agreements before final accession. The "double profit agreements" with Hungary, Estonia, Latvia and Lithuania entered into force as of July 1, 2002. The double profit approach, i.e. the removal of all export refunds and import duties, affects cereals, dairy products (except non-Annex I products) and beef. The initiative foresees duty-free tariff quotas for EU exports, based on 2 pct of each candidate's consumption of the product concerned. Similarly, for CEECs' exports to the EU, candidates would be given a weighted share of 2 pct of the EU's consumption, on the basis of export history and current production. Pig and poultry trade was already largely liberalized under double zero agreements.

Promotion

On December 18, 2001, the European Commission approved the first overseas promotional campaigns to be partially funded by the Commission. The expenditure for the EU authorities is estimated at 9.8 million euro. Except for certain specific measures (information on labeling systems, high level visits, studies) which the EU finances at 100 pct, EU funding for most programs has to be matched by member state governments (30 pct) and trade organizations (20 pct). Financed measures can be "promotional or publicity measures highlighting the advantages of products, especially in terms of quality, hygiene, food safety, nutrition, labeling or environment-friendliness". These measures can support promotional activities focusing on the Community system of protection of origin (PDOs), protected geographical indications (PGIs), traditional specialties (TSGs) and organic farming. Products covered by these third country promotional programs are wine, fruit, cheeses and pigmeat. The 18 programs accepted are mostly targeted at countries in the Far East, the U.S. and the countries of Central and Eastern Europe. Unfortunately, the list of approved programs does not break down funding by target destinations.

In December 2001, the European Commission also accepted 13 promotional programs on beef and veal submitted by member states and professional organizations. These programs will provide information to EU consumers on the way beef is produced, labeled and marketed. They will last for one year and involve an EU contribution of 8 million euro against a total budget of 13 million euro. These funds will be used to organize conferences, seminars and Internet information to inform European consumers about EU and national legislation on safety controls in the beef and veal production chain.

Lists

U.S. meat and meat products have to come from EU approved establishments. Lists of EU approved establishments are drawn up under the supervision of the Food Safety and Inspection Service (FSIS) as meat and meat products are concerned. Establishments are subject to FSIS inspections prior to listing and/or to occasional EU audits after listing.

The updated list of EU approved meat establishments in the United States can be found at:
<http://www.useu.be/AGRI/red.html#list>.

PROPOSED LEGISLATION

Animal By-products

The proposed regulation on animal by-products laying down health rules concerning animal by-products not intended for human consumption was released in November 2000. The proposal, based on several opinions from the Scientific Steering Committee, establishes which animal by-products can be used as ingredients in feed. The only raw material allowed to be used for the production of animal feed would then be material derived from animals declared fit for human consumption following inspection. To achieve this, rules are laid down to collect, transport, store, handle, process and use or dispose of animal by-products in order to prevent these products from presenting a risk to animal or public health. The placing on the market, trade and import of animal by-products is also defined. It institutes the basic requirements that all animal by-products, whatever their final use may be, must be fit for human consumption.

This proposal was adopted through the co-decision procedure. Reconciliation between the Council and the European Parliament versions revolved around the ban on catering waste, which the European Parliament wanted to soften for environmental reasons. It was finally decided to give catering waste processors a four-year derogation from the ban on strict traceability and processing conditions. The animal by-products regulation should be formally adopted by the European Parliament in September 2002 and enter into force 6 months later.

U.S. authorities have serious concerns about the current proposal and its potential impact on imports from third countries. This proposal does not appear to identify hazards requiring these measures, which would make standards equivalence hard to establish. The exclusion of fallen stock from feed could affect U.S. exports of petfood to the EU, as the prohibition of cannibalism could make the four-year derogation on catering waste, including yellow grease, very difficult to implement.

Zoonoses

In August 2000 the Commission issued two proposals on zoonoses: (1) a Directive which would improve the prevention and control of zoonoses and (2) a Regulation on the control of salmonella and other food-borne zoonotic agents. These two proposals went through first reading at the European Parliament in May 2001. Contentious issues seem to revolve around the financial costs of the envisaged measures, the length of transition phases before implementation and generally, and the ambition of zoonoses reduction objectives.

The proposed Directive will lay down a system for monitoring certain zoonotic agents throughout the human food and animal feed chain. Member states and third countries exporting to the EU will be required to set up coordinated monitoring programs in order to establish baseline values for the level of most important zoonotic infections in each member state (including salmonella and campylobacter). These programs will be co-financed by the European Commission. Data will have to be collected on the incidence of zoonotic diseases in humans, on the occurrence of food-borne outbreaks and the monitoring of antimicrobial resistance in certain zoonotic agents.

The proposed Regulation sets up a framework for a salmonella reduction policy, especially in animal populations. Further extension to cover other pathogens would be possible, as well as control activities at the subsequent stages of the food chain. The proposal aims to reduce the public health burden caused by this specific agent, as over 150,000 human cases of salmonellosis are reported every year in the European Union. In its first reading, the EP tried to broaden the mandatory two serotypes of salmonella which should be tested for, to include all types of salmonella. It also strengthens the involvement of feed business operators in the salmonella control programs.

The original Commission proposal foresees that equivalent measures for the control of zoonoses must be implemented

in third countries exporting to the EU, without defining what equivalent measures could be.

Paradoxically enough, the fairly remote and still hypothetical establishment of stricter target levels for salmonella could open the door to processes now prohibited by the EU. Specifically, lower tolerance levels for salmonella could make decontamination of poultry products necessary. Currently the restriction on decontamination prevents U.S. poultry from being shipped to Europe. The extent and timing of a third country zoonoses monitoring plan is still undetermined.

Food Hygiene

In the summer of 2000, the EU Commission released new proposals to consolidate and standardize EU food safety legislation spread over 17 directives. After the first reading in May 2002, the two proposals will now be reviewed by the Council, who will issue a common position. The European Parliament will then re-examine the proposals in second reading. The proposals were notified to the WTO in 2000 and the United States provided comments in November 2000 and additional comments in March 2001. Implementation of the legislation is expected in 2004 at the earliest.

Those regulations are introducing a "farm to fork" approach to food safety. The responsibility for producing safe food is now shared between all players in the food chain and government authorities. The hygiene legislation requires traceability of food and food ingredients and introduces HACCP principles. Imports are required to comply with Community provisions, while exports have to meet at least Community standards and any other standards imposed by the receiving country.

In order to bring Community legislation into line with the principles of food hygiene laid down by the Codex Alimentarius, the hygiene proposals introduce Hazard Analysis Critical Control Point (HACCP) principles. These principles, which would be mandatory for all operators of food establishments, prescribe a number of logical steps in order to allow, through hazard analysis, the identification of points where control is critical with regard to food safety. The principles contain an obligation to keep records of the checks carried out. Operators will have to design a specific monitoring program. All possible hazards must be identified and proper control procedures for every food establishment individually approved by member states and European regulatory authorities. Corrective action must be taken when controls show that problems may occur. This self-checking system is already applied in some parts of the food industry but it is new to others. However, "flexibility", or in other words "derogations", is called for in both the Commission and the Parliament version. It would be granted to traditional foods, foods produced in remote areas and small businesses by member states.

The food operator is now responsible for food hygiene. As with all recent legislation related to food, traceability is emphasized, including the mandatory registration of all food establishments, and the creation of adequate procedures to withdraw food from the market.

The possibility of decontaminating poultry carcasses in order to reduce hazards is envisaged in the proposal, even if Commission officials qualify the article not as a potential authorization of decontamination but more as a way to include hypothetical future developments. The provision foresees the procedure (i.e. getting the approval of the Standing Committee on the Food Chain and Animal Health after consultation of the European Food Safety Authority) whereby decontaminants would be approved.

Feed

Feed and feed industry practices have been repeatedly singled out after the dioxin, CSF and BSE crises, which resulted in a flurry of feed legislation proposals by the Commission. The food and feed law adopted in 2002 (Council Regulation 178/2002), which emphasizes traceability and safety of food and feed, constitutes the framework of all future feed legislation. In a nutshell, controls on feed were strengthened and contingency plans for feed emergencies were set up. Safeguard measures with respect to third countries exporting feed to the EU were initiated. Approval and reapproval procedures for feed additives were streamlined and a proposal was released to ban the four remaining antibiotics used as growth promoters. Dilution of contaminated feed with other feed materials was prohibited. Rules were established for maximum limits of undesirable substances in feed additives, and thresholds on the presence of undesirable substances that must trigger intervention by competent authorities. Catering waste was banned in pigswill and in the future for all feed (see animal by-products). GMO feed will have to be labeled even though meat from animals fed GMO feed will not. The animal by-products legislation (see above) aims to prevent feed-borne food crises by prohibiting the recycling of fallen stock and condemned animal material in feed.

In the fall of 2002, the Commission should release a proposal imposing financial penalties or export restrictions on member states failing to enforce new controls on food and feed. This will include automatic closure of plants in some cases and coordination of swift product recall systems. All feed producing establishments would have to be registered. The proposal also addresses the issue of the cost of import controls, proposing that the checks on all plant and animal product imports be paid by the exporter but that in the event of violations, the cost of destruction, storage or re-dispatching be met by the importer.

Beyond the obvious need to avoid future animal disease outbreaks, stricter feed requirements are presented by EU authorities as part and parcel of a general "quality" and ethics strategy to boost EU consumption and exports. They also have the potential to increase production costs for EU producers.

Hormones

Only U.S. beef raised and slaughtered under the Non-Hormone Treated Cattle program (NHTC) can be exported to the EU. No U.S. hormone-treated beef is allowed to enter the European Union.

On January 1, 1989, the European Union implemented a ban on imports of red meat from animals treated with 6 growth promotants, cutting off U.S. beef exports to the EU. A WTO dispute settlement panel case was launched by the United States and Canada in 1996. On February 13, 1998, the WTO dispute settlement body adopted the panel and appellate body report ruling that the EU ban was inconsistent with the principles of the SPS Agreement.

In May 2000, the European Commission, following an EU scientific committee opinion, proposed to ban definitively the use of estradiol in farm animals both for growth promotion and therapeutic purposes and to maintain the current prohibition on growth promotion for the five other hormones on a provisional basis while it seeks more complete scientific information. The Commission states that this provisional ban would be in compliance with the ruling of the Appellate Body. The scientific information which the EU committed itself to putting together was published in 2002 in the form of 17 independent studies but the decision to make the hormone ban permanent has not been adopted yet because of reluctance to ban the therapeutic use of estradiol. More detailed information on the ongoing hormone dispute can be found on the USEU homepage (<http://www.useu.be/agri>)

Mid-term Review

The Commission estimates that market management mechanisms agreed on in Agenda 2000 have been efficient enough to facilitate the recovery of the beef market after the 2000 BSE crisis. According to the Commission however, the beef regime remains complicated and provides incentives towards intensive production. The Commission proposes to decouple headage payments and replace them with a single income payment per farm based on historical entitlements. Cross-compliance conditions (making the payment of subsidies dependent on compliance with environmental requirements) are also proposed. Animal welfare, especially on export of live animals, will be linked to the payment of export refunds.

In July 2002, the Commission released its proposals for the Agenda 2000 mid-term review. It assesses the efficiency of measures decided under Agenda 2000 and proposes potential amendments. The proposal aims to balance the EU beef market by decoupling premia payments, encouraging extensive production, and reducing support prices for the dairy sector (which provides about 60 pct of EU beef). This should contribute to balancing the EU beef market.

Based on these proposals and extended discussions among member states, a compromise on the mid-term review will be reached presumably at the beginning of 2003 within the EU Farm Council, made up of 15 member states' Agriculture Ministers.

For more information please visit our website at <http://www.useu.be/agri/usda.html>.

Previous EU livestock reports:

E22011	EU 2002 Semi-Annual Livestock Report
E21105	EU 2001 Annual Livestock Report

Additional related livestock reports from Agricultural Offices in the European Union released in 2002:

DENMARK

DA2002	EU finance Danish pork promotion in Japan
DA2003	Danish 2001 pork exports
DA2010	The cycle in pork prices continue
DA2019	Beef, swine and products update

PORTUGAL

PO2002	Livestock trends
PO2020	Classical Swine Fever-Portugal introduces new hog trade ban
PO2023	Livestock trends

UNITED KINGDOM

UK2003	Foot and Mouth disease scare in UK
UK2008	Another Foot and Mouth disease scare in UK
UK2013	UK beef export regulations relaxed

GERMANY

GM2003	8,000mt of beef recalled after BSE tests by private labs in Germany questioned
GM2005	EU imposes export ban on live pigs from the German state of Rhineland-Palatinate
GM 2011	BSE in Germany - update

NETHERLANDS

NL2002	Alternative production methods for meat: workshop, focus on organic and free range market potential
NL2021	Japan and Korea still closed for Dutch pork
NL2002	China stops imports of Dutch meat products
NL2025	Dutch pig stock is declining
NL2029	Illegal growth hormones found in Dutch pigs
NL2043	The use of prohibited hormones by the Dutch livestock sector

FRANCE

FR2002	Additional national subsidy to French beef farmers
FR2014	France expands incineration capacity for MBM
FR2027	French pork situation update

ITALY

IT2006	Livestock voluntary report
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